



OFFICE OF SECRETARY OF STATE

PERIOD JULY 1, 2000 TO JANUARY 8, 2001

AND THE TWO YEARS ENDED JUNE 30, 2000

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2001-23
March 22, 2001
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2001

www.auditor.state.mo.us

Governor Mel Carnahan appointed Rebecca McDowell Cook as the thirty-sixth Secretary of State and she was sworn in on December 16, 1994. Secretary of State Cook was elected to a four year term of office in November 1996. Her term expired on January 8, 2001. On that date, Matt Blunt was inaugurated as the thirty-seventh Secretary of State of Missouri.

The following report of the Office of Secretary of State reflects audited financial statements dating from July 1, 1998, until the electoral transfer of Secretary of State authority which occurred on January 8, 2001. Some areas of concern were noted as a result of our audit.

Pursuant to state law the responsibility for franchise tax was transferred to the Department of Revenue from the Office of Secretary of State, effective January 1, 2000. However, the Office of Secretary of State is still responsible for administratively dissolving corporations based on notification from the Department of Revenue of those corporations that fail or refuse to pay franchise tax (including interest and penalties) after the assessment becomes final.

The Department of Revenue has not notified the Office of Secretary of State of any delinquencies since assuming responsibility for the collection of franchise taxes. Therefore, the Office of Secretary of State has not administratively dissolved corporations for failure to pay franchise taxes for filing dates after January 1, 2000. Based on the office's past experience with administratively dissolving corporations, it is likely that some corporations have been allowed to remain active with delinquencies. Allowing corporations to remain active with delinquencies provides no incentive for corporations to pay their taxes when due. This increases the likelihood that taxes, interest, and penalties will not be collected, and results in lost revenue to the state.

As discussed in prior audit reports, fixed asset records and procedures are not adequate. Because adequate records and/or procedures have not been in place for several years, assets have not been properly accounted for and safeguarded from theft or misuse. At June 30, 2000, the Office of Secretary of State estimated that the total cost of general fixed assets maintained by the office was approximately \$4 million.

YELLOW SHEET

OFFICE OF SECRETARY OF STATE

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FINANCIAL SECTION

State Auditor's Reports



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS**

Honorable Rebecca McDowell Cook
and
Honorable Matt Blunt, Secretary of State
Jefferson City, MO 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Office of Secretary of State as of and for the period July 1, 2000 to January 8, 2001, and the years ended June 30, 2000 and 1999, as identified in the table of contents. These special-purpose financial statements are the responsibility of the office's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

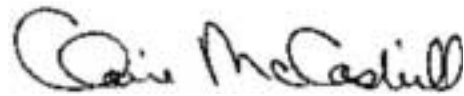
The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Library Networking Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Secretary of State and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the office.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Library Networking Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Secretary of State as of and for the period July 1, 2000 to January 8, 2001, and the years ended June 30, 2000 and 1999, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated January 26, 2001, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Statistical Section is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.

An integral part of the office's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



Claire McCaskill
State Auditor

January 26, 2001 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Regina Pruitt, CPA
In-Charge Auditor:	Toni M. Crabtree, CPA
Audit Staff:	Terese Summers, CPA
	Brian Benter
	Karen Wirtmiller



CLAIRE C. McCASKILL
Missouri State Auditor

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Honorable Rebecca McDowell Cook
and
Honorable Matt Blunt, Secretary of State
Jefferson City, MO 65102

We have audited the special-purpose financial statements of the Office of Secretary of State as of and for the period July 1, 2000 to January 8, 2001, and the years ended June 30, 2000 and 1999, and have issued our report thereon dated January 26, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

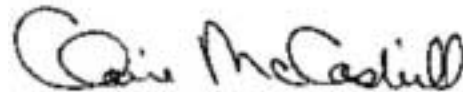
As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Office of Secretary of State are free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Office of Secretary of State, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over

financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management of the Office of Secretary of State and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" being more prominent than the last name "McCaskill".

Claire McCaskill
State Auditor

January 26, 2001 (fieldwork completion date)

Financial Statements

Exhibit A-1

OFFICE OF SECRETARY OF STATE
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
 PERIOD JULY 1, 2000 TO JANUARY 8, 2001

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Library Networking Fund	Investor Education Fund	State Document Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS									
Federal grants	\$ 1,302,129	0	0	0	0	0	0	0	1,302,129
Fees	0	943,412	711,551	0	0	0	0	0	1,654,963
Taxes	0	0	0	865,677	0	0	0	0	865,677
Investment income	0	96,855	0	14,660	0	1,276	9,371	14,405	136,567
Gain on sale of investments	0	0	0	0	0	0	2,334	0	2,334
Donations	0	0	0	0	0	0	24,926	0	24,926
Consent orders	0	0	0	0	18,330	0	0	0	18,330
Refunds	0	0	8,807	0	0	0	0	0	8,807
Miscellaneous	15,742	935	0	0	720	0	0	66,753	84,150
Total Receipts	<u>1,317,871</u>	<u>1,041,202</u>	<u>720,358</u>	<u>880,337</u>	<u>19,050</u>	<u>1,276</u>	<u>36,631</u>	<u>81,158</u>	<u>4,097,883</u>
DISBURSEMENTS									
Personal service	158,636	0	410,086	0	0	0	0	53,696	622,418
Employee fringe benefits	56,944	0	134,022	0	0	0	0	18,969	209,935
Expense and equipment	92,747	686,498	174,502	0	0	0	0	86,251	1,039,998
Public assistance grants	1,064,665	0	0	0	0	0	0	0	1,064,665
Library networking	0	0	0	16,371	0	0	0	0	16,371
Local Records Grant Program	0	0	236,024	0	0	0	0	0	236,024
Trust service charges	0	0	0	0	0	0	1,165	0	1,165
Total Disbursements	<u>1,372,992</u>	<u>686,498</u>	<u>954,634</u>	<u>16,371</u>	<u>0</u>	<u>0</u>	<u>1,165</u>	<u>158,916</u>	<u>3,190,576</u>
RECEIPTS OVER (UNDER)									
DISBURSEMENTS BEFORE OTHER									
FINANCING SOURCES AND USES	(55,121)	354,704	(234,276)	863,966	19,050	1,276	35,466	(77,758)	907,307
OTHER FINANCING SOURCES (USES)									
Operating transfers out	0	(6,318)	(48,129)	0	0	0	(400,000)	(11,052)	(465,499)
CASH AND INVESTMENTS, JULY 1	<u>58,789</u>	<u>3,149,925</u>	<u>1,552,964</u>	<u>44,362</u>	<u>200,986</u>	<u>43,010</u>	<u>798,766</u>	<u>492,064</u>	<u>6,340,866</u>
CASH AND INVESTMENTS, JANUARY 8	<u>\$ 3,668</u>	<u>3,498,311</u>	<u>1,270,559</u>	<u>908,328</u>	<u>220,036</u>	<u>44,286</u>	<u>434,232</u>	<u>403,254</u>	<u>6,782,674</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

OFFICE OF SECRETARY OF STATE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 2000

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Library Networking Fund	Investor Education Fund	State Document Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS									
Federal grants	\$ 3,258,005	0	0	0	0	0	0	0	3,258,005
Fees	0	2,179,844	1,459,516	0	0	0	0	0	3,639,360
Taxes	0	0	0	829,109	0	0	0	0	829,109
Investment income	0	145,813	0	26,789	0	2,209	30,943	37,452	243,206
Gain on sale of investments	0	0	0	0	0	0	360	0	360
Donations	0	0	0	0	0	209	21,382	0	21,591
Consent orders	0	0	0	0	40,360	0	0	0	40,360
Refunds	0	0	37,043	0	0	0	0	0	37,043
Miscellaneous	8,546	6,405	0	0	480	0	0	0	15,431
Total Receipts	3,266,551	2,332,062	1,496,559	855,898	40,840	2,418	52,685	37,452	8,084,465
DISBURSEMENTS									
Personal service	289,419	29,945	730,814	0	0	0	0	102,499	1,152,677
Employee fringe benefits	85,726	9,237	205,913	0	0	0	0	30,152	331,028
Expense and equipment	140,715	1,512,979	237,502	0	0	0	49,653	154,865	2,095,714
Public assistance grants	2,699,533	0	0	0	0	0	0	0	2,699,533
Investor education	0	0	0	0	50,000	0	0	0	50,000
Library networking	0	0	0	811,536	0	0	0	0	811,536
Local Records Grant Program	0	0	395,410	0	0	0	0	0	395,410
Trust service charges	0	0	0	0	0	0	4,648	0	4,648
Total Disbursements	3,215,393	1,552,161	1,569,639	811,536	50,000	0	54,301	287,516	7,540,546
RECEIPTS OVER (UNDER)									
DISBURSEMENTS BEFORE OTHER									
FINANCING SOURCES AND USES	51,158	779,901	(73,080)	44,362	(9,160)	2,418	(1,616)	(250,064)	543,919
OTHER FINANCING SOURCES (USES)									
Operating transfers out	0	(57,464)	(34,342)	0	(643)	(231)	(700)	(1,353)	(94,733)
CASH AND INVESTMENTS, JULY 1	7,631	2,427,488	1,660,386	0	210,789	40,823	801,082	743,481	5,891,680
CASH AND INVESTMENTS, JUNE 30	\$ 58,789	3,149,925	1,552,964	44,362	200,986	43,010	798,766	492,064	6,340,866

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

OFFICE OF SECRETARY OF STATE
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
 YEAR ENDED JUNE 30, 1999

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Investor Education Fund	State Document Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS								
Federal grants	\$ 2,069,635	0	0	0	0	0	0	2,069,635
Fees	0	2,114,291	1,730,569	0	0	0	0	3,844,860
Investment income	0	125,392	0	0	1,372	30,533	46,963	204,260
Gain on sale of investments	0	0	0	0	0	23,456	0	23,456
Donations	0	0	0	0	11,038	19,099	0	30,137
Consent orders	0	0	0	104,392	0	0	0	104,392
Refunds	0	0	29,898	0	0	0	0	29,898
Miscellaneous	86	3,375	0	0	0	0	0	3,461
Total Receipts	<u>2,069,721</u>	<u>2,243,058</u>	<u>1,760,467</u>	<u>104,392</u>	<u>12,410</u>	<u>73,088</u>	<u>46,963</u>	<u>6,310,099</u>
DISBURSEMENTS								
Personal service	282,087	66,061	673,865	0	0	0	90,685	1,112,698
Employee fringe benefits	82,439	13,921	186,877	0	0	0	26,232	309,469
Expense and equipment	262,105	1,651,073	246,736	0	(18,500)	5,143	54,540	2,201,097
Public assistance grants	1,435,435	0	0	0	0	0	0	1,435,435
Local Records Grant Program	0	0	336,227	0	0	0	0	336,227
Trust service charges	0	0	0	0	0	3,914	0	3,914
Total Disbursements	<u>2,062,066</u>	<u>1,731,055</u>	<u>1,443,705</u>	<u>0</u>	<u>(18,500)</u>	<u>9,057</u>	<u>171,457</u>	<u>5,398,840</u>
RECEIPTS OVER (UNDER)								
DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	7,655	512,003	316,762	104,392	30,910	64,031	(124,494)	911,259
OTHER FINANCING SOURCES (USES)								
Operating transfers:								
In	0	3,480	0	0	0	0	0	3,480
Out	(34)	(105,399)	(57,716)	(5,749)	(925)	(372)	(2,541)	(172,736)
CASH AND INVESTMENTS, JULY 1	<u>10</u>	<u>2,017,404</u>	<u>1,401,340</u>	<u>112,146</u>	<u>10,838</u>	<u>737,423</u>	<u>870,516</u>	<u>5,149,677</u>
CASH AND INVESTMENTS, JUNE 30	<u>\$ 7,631</u>	<u>2,427,488</u>	<u>1,660,386</u>	<u>210,789</u>	<u>40,823</u>	<u>801,082</u>	<u>743,481</u>	<u>5,891,680</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF RECEIPTS
GENERAL REVENUE FUND-STATE

	Period July 1, 2000 to January 8, 2001	Year Ended June 30,	
		2000	1999
Franchise tax	\$ 0	18,350,263	86,307,446
Corporations	3,776,562	9,912,622	9,718,341
Securities	4,018,836	10,860,708	9,727,871
Uniform commercial code	380,722	801,000	777,425
Commissions	195,218	386,628	374,814
Administrative rules	17,945	32,739	57,138
Archives	65,104	50,422	37,849
Missouri state library	273	994	964
Miscellaneous	16,422	3,532	10,617
Total	\$ <u>8,471,082</u>	<u>40,398,908</u>	<u>107,012,465</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF SECRETARY OF STATE
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 PERIOD JULY 1, 2000 TO JANUARY 8, 2001

	Appropriations	Expenditures	Encumbrances	Uncommitted Appropriations
GENERAL REVENUE FUND - FEDERAL				
Personal Service	\$ 500,718	155,138	0	345,580
Expense and Equipment	227,574	61,448	55,260	110,866
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library	1,898,500	851,578	462,298	584,624
Total General Revenue Fund - Federal	2,626,792	1,068,164	517,558	1,041,070
TECHNOLOGY TRUST FUND				
Personal Service	77,480	0	0	77,480
Expense and Equipment	2,932,656	577,266	940,373	1,415,017
Total Technology Trust Fund	3,010,136	577,266	940,373	1,492,497
LOCAL RECORDS PRESERVATION FUND				
Payment of real property leases, related services, utilities, and systems furniture; and structural modifications for new FTE for rents consolidated to the Office of Administration - Expense and Equipment	240	120	120	0
Personal Service	894,247	404,265	0	489,982
Expense and Equipment	404,682	126,116	114,932	163,634
Local records preservation grants	600,000	234,744	4,658	360,598
Total Local Records Preservation Fund	1,899,169	765,245	119,710	1,014,214
LIBRARY NETWORKING FUND				
Library Network Grants	865,677	1,234	1,202	863,241
Total Library Networking Fund	865,677	1,234	1,202	863,241
STATE DOCUMENT PRESERVATION FUND				
Preserving legal, historical and genealogical materials and making them available to the public - Expense and Equipment	27,515	0	0	27,515
Total State Document Preservation Fund	27,515	0	0	27,515
WOLFNER STATE LIBRARY FUND				
Expense and Equipment	35,000	0	18,000	17,000
Total Wolfner State Library Fund	35,000	0	18,000	17,000
INSTITUTION GIFT TRUST FUND				
Personal Service	120,723	52,803	0	67,920
Expense and Equipment	163,464	68,340	35,642	59,482
Total Institution Gift Trust Fund	284,187	121,143	35,642	127,402
GENERAL REVENUE FUND - STATE				
Personal Service	7,397,036	3,465,607	0	3,931,429
Expense and Equipment	4,182,945	849,529	1,063,675	2,269,741
Expenses of initiative referendum and constitutional amendments	1,207,251	1,207,251	0	0
Refunds of securities, corporations, uniform commercial code and miscellaneous collections of the Secretary of State's Office	100,000	28,713	0	71,287
Remote Electronic Access for Libraries Program	3,325,000	0	0	3,325,000
Payment of real property leases, related services, utilities, and systems furniture; and structural modifications for new FTE for rents consolidated to the Office of Administration - Expense and Equipment	184,007	30,126	29,016	124,865
Absentee Ballots	120,000	13,186	506	106,308
Remote Electronic Access for Libraries Program (reappropriated)	545,583	545,583	0	0
Costs related to library automation	966,527	0	0	966,527 *
Aid to Public Libraries	3,281,871	1,148,106	1,148,786	984,979
Funding the Remote Electronic Access Libraries Program	1,672	0	0	1,672 *

OFFICE OF SECRETARY OF STATE
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 PERIOD JULY 1, 2000 TO JANUARY 8, 2001

	Appropriations	Expenditures	Encumbrances	Uncommitted Appropriations
Literacy Investment for Tomorrow Program	69,450	0	0	69,450
Total General Revenue Fund - State	21,381,342	7,288,101	2,241,983	11,851,258
RECORD SERVICES FUND - FEDERAL				
Missouri Historical Records Advisory Board Program	300,000	0	0	300,000
Save America's Treasures	200,000	0	0	200,000
Total Record Services Fund - Federal	500,000	0	0	500,000
Total All Funds	\$ 30,629,818	9,821,153	3,874,468	16,934,197

* Biennial appropriations set up in the current fiscal year are re-appropriated to the next year. After the June month-end processing has been completed, the unexpended appropriation balance for a biennial appropriation is established in the new fiscal year. Therefore, there is no lapsed balance for a biennial appropriation at the end of the first year.

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF SECRETARY OF STATE
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 2000

	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - FEDERAL			
Personal Service	\$ 478,274	291,467	186,807
Expense and Equipment	227,574	115,643	111,931
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library	3,485,000	2,500,321	984,679
Total General Revenue Fund - Federal	4,190,848	2,907,431	1,283,417
TECHNOLOGY TRUST FUND			
Personal Service	74,373	29,945	44,428
Expense and Equipment	2,932,656	1,052,223	1,880,433
Total Technology Trust Fund	3,007,029	1,082,168	1,924,861
LOCAL RECORDS PRESERVATION FUND			
Payment of real property leases, related services, utilities, and systems furniture; and structural modifications for new FTE for rents consolidated to the Office of Administration - Expense and Equipment	240	240	0
Personal Service	821,568	734,621	86,947
Expense and Equipment	327,427	285,522	41,905
Local records preservation grants	400,000	376,384	23,616
Total Local Records Preservation Fund	1,549,235	1,396,767	152,468
LIBRARY NETWORKING FUND			
Library Network Grants	829,110	826,673	2,437
Total Library Networking Fund	829,110	826,673	2,437
INVESTOR EDUCATION FUND			
Investor Education	0	0	0
Total Investor Education Fund	0	0	0
STATE DOCUMENT PRESERVATION FUND			
Preserving legal, historical and genealogical materials and making them available to the public - Expense and Equipment	27,515	0	27,515
Total State Document Preservation Fund	27,515	0	27,515
WOLFNER STATE LIBRARY FUND			
Expense and Equipment	35,000	16,616	18,384
Total Wolfner State Library Fund	35,000	16,616	18,384
INSTITUTION GIFT TRUST FUND			
Personal Service	115,576	102,612	12,964
Expense and Equipment	163,464	131,745	31,719
Total Institution Gift Trust Fund	279,040	234,357	44,683
GENERAL REVENUE FUND - STATE			
Personal Service	6,858,094	6,301,710	556,384
Expense and Equipment	4,558,672	4,278,332	280,340
Expenses of initiative referendum and constitutional amendments	100,000	0	100,000
Refunds of securities, corporations, uniform commercial code and miscellaneous collections of the Secretary of State's Office	5,400,000	2,824,773	2,575,227
Remote Electronic Access for Libraries Program	2,404,417	2,404,417	0

OFFICE OF SECRETARY OF STATE
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 YEAR ENDED JUNE 30, 2000

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Lapsed Balances</u>
Payment of real property leases, related services, utilities, and systems furniture; and structural modifications for new FTE for rents consolidated to the Office of Administration - Expense and Equipment	63,767	63,549	218
Costs related to library automation	1,144,728	178,201	966,527 *
Aid to Public Libraries	2,843,341	2,843,341	0
Funding the Remote Electronic Access Libraries Program	422,750	421,078	1,672 *
Literacy Investment for Tomorrow Program	69,450	69,450	0
Total General Revenue Fund - State	<u>23,865,219</u>	<u>19,384,851</u>	<u>4,480,368</u>
Total All Funds	<u>\$ 33,782,996</u>	<u>25,848,863</u>	<u>7,934,133</u>

* Biennial appropriations set up in the current fiscal year are re-appropriated to the next year. After the June month-end processing has been completed, the unexpended appropriation balance for a biennial appropriation is established in the new fiscal year. Therefore, there is no lapsed balance for a biennial appropriation at the end of the first year.

The accompanying Notes to the Financial Statements are an integral part of this statement.

OFFICE OF SECRETARY OF STATE
 STATEMENT OF APPROPRIATIONS AND EXPENDITURES
 YEAR ENDED JUNE 30, 1999

	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - FEDERAL			
Personal Service	\$ 537,908	283,538	254,370
Expense and Equipment	177,574	114,461	63,113
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library	2,050,000	1,966,758	83,242
Total General Revenue Fund - Federal	2,765,482	2,364,757	400,725
TECHNOLOGY TRUST FUND			
Personal Service	70,831	66,061	4,770
Expense and Equipment	2,932,656	1,978,149	954,507
Total Technology Trust Fund	3,003,487	2,044,210	959,277
LOCAL RECORDS PRESERVATION FUND			
Personal Service	760,022	675,879	84,143
Expense and Equipment	227,347	227,342	5
Local records preservation grants	400,000	305,740	94,260
Total Local Records Preservation Fund	1,387,369	1,208,961	178,408
LIBRARY NETWORKING FUND			
Library Network Grants	1	0	1
Total Library Networking Fund	1	0	1
INVESTOR EDUCATION FUND			
Investor Education	50,000	50,000	0
Total Investor Education Fund	50,000	50,000	0
STATE DOCUMENT PRESERVATION FUND			
Preserving legal, historical and genealogical materials and making them available to the public - Expense and Equipment	27,515	3	27,512
Total State Document Preservation Fund	27,515	3	27,512
WOLFNER STATE LIBRARY FUND			
Expense and Equipment	110,000	33,037	76,963
Total Wolfner State Library Fund	110,000	33,037	76,963
INSTITUTION GIFT TRUST FUND			
Personal Service	100,075	90,791	9,284
Expense and Equipment	113,464	58,187	55,277
Total Institution Gift Trust Fund	213,539	148,978	64,561
GENERAL REVENUE FUND - STATE			
Personal Service	6,197,276	5,652,977	544,299
Expense and Equipment	2,749,996	2,749,493	503
Expenses of initiative referendum and constitutional amendments	1,300,000	1,213,680	86,320
Refunds of securities, corporations, uniform commercial code and miscellaneous collections of the Secretary of State's Office	6,605,000	6,457,709	147,291
Aid to Public Libraries	2,573,341	2,573,341	0
Funding the Remote Electronic Access Libraries Program	2,575,000	2,075,000	500,000

Exhibit C-3

OFFICE OF SECRETARY OF STATE
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
YEAR ENDED JUNE 30, 1999

	Appropriations	Expenditures	Lapsed Balances
Literacy Investment for Tomorrow Program	69,540	69,450	90
For the purpose of funding costs related to computer networking of public libraries - Expense and Equipment	521,567	521,567	0
Costs related to library automation	1,767,147	622,419	1,144,728
Total General Revenue Fund - State	24,358,867	21,935,636	2,423,231
Total All Funds	\$ 31,916,260	27,785,582	4,130,678

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

OFFICE OF SECRETARY OF STATE
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Office of Secretary of State.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Library Networking Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund. Appropriations from these funds are expended by or for the office for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund-State. Receipts include monies the office collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the office and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statements of Appropriations and Expenditures, Exhibit C, are presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June 30 and paid during the lapse period. For the period ended January 8, 2001, expenditures include amounts payable at January 8, 2001, and encumbered amounts are reported as encumbrances.

For years ended on or before June 30, 1999, the lapse period ended August 31 for regular appropriations and December 31 for capital improvement appropriations. For years ended on or after June 30, 2000, the lapse period ends August 31 for both regular and capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The office administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

General Revenue Fund-Federal: The office administers several programs financed wholly or partially by federal monies maintained in the state treasury in the Office of Secretary of State's Federal Account. These federal funds may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize the disbursements of the office's federal funds.

Technology Trust Fund: This fund was established by Section 28.160, RSMo, to receive fees for certain services provided by the Secretary of State's Office. Expenditures are authorized by appropriation for the purposes of establishing, procuring, developing, modernizing and maintaining an electronic data processing system and programs for a centralized data base of all registered voters; library services; and services, equipment, and functions related to administrative rules, securities, corporations and business organizations, archives, Uniform Commercial Code and record services. The authority to collect certain fees

expires December 31, 2001. At the end of any biennium, any amount in the fund in excess of \$5 million shall be transferred to the General Revenue Fund-State.

Local Records Preservation Fund: This fund was established by Section 59.319, RSMo, to receive user fees from document recordings in each county. Expenditures are authorized by appropriation for preservation of local records by the Secretary of State. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Library Networking Fund: This fund was established by Section 182.812, RSMo, to consist of any gifts, contributions, grants, or bequests received from federal, private or other sources. Expenditures are authorized by appropriation for library networks. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Investor Education Fund: This fund was established by Section 409.407, RSMo, to receive collections from enforcement actions of the Secretary of State Securities Division. Expenditures are authorized by appropriation for investor education programs. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

State Document Preservation Fund: This fund was established by Section 109.005, RSMo, to receive monies from gifts, bequests or contributions for the specific purpose of preserving legal, historical and genealogical materials and making them available to the public. Expenditures are authorized by appropriation for state document preservation. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Wolfner Trust Fund: This fund was established by Section 181.021, RSMo, to account for donations restricted to improving library services to the blind and physically handicapped. In addition to donations, revenues consist of earnings from fund investments. The investments of the Wolfner Trust Fund are held and managed by a trust company and investment income is transferred to the custody of the state treasurer on a periodic basis.

Institutional Gift Trust Fund: This fund was established by Section 33.563, RSMo, to receive collections from enforcement actions of the Secretary of State Securities Division. Expenditures are authorized by appropriation for investor education programs. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

General Revenue Fund-State: The office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the office, including those programs and services that have no other funding source. These appropriations also may be

used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

Record Services-Federal: The office administers several programs financed wholly or partially by federal monies maintained in the state treasury in the Office of Secretary of State's Record Services Federal Account. These federal funds may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize the disbursements of the office's federal funds. This fund was established by the Office of Administration during fiscal year 2001 and will be used to handle federal funds administered by State Archives for document preservation grants to other entities and for the preservation of the St. Louis Circuit Clerk's court documents.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, and Institution Gift Trust Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

2. Cash and Investments

The balances of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Library Networking Fund, Investor Education Fund, State Document Preservation Fund, a portion of the Wolfner State Library Fund, and Institution Gift Trust Fund are pooled with other state funds and invested by the state treasurer.

The Wolfner State Library Fund's investments are composed of the following:

	June 30.					
	January 8, 2001		2000		1999	
	Reported Amount	Fair Value	Reported Amount	Fair Value	Reported Amount	Fair Value
U. S. Treasury notes (various interest rates ranging from 4.25 to 6.875 percent)	\$ 149,455	152,286	134,460	131,713	130,349	128,786
Common Funds (various interest rates ranging from 4.8 to 6.4 percent)	15,256	15,256	22,885	22,885	33,823	33,823
Common Stocks	68,190	152,453	73,221	138,227	66,034	163,649
Miscellaneous	1	1	1	1	1	1
Total	\$ 232,902	319,996	230,567	292,826	230,207	326,259

These investments were held by the office's custodial bank in the Office of Secretary of State's name.

3. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

<u>General Revenue Fund-Federal</u>				
		Period		
		July 1, 2000		
		to	<u>Year Ended June 30.</u>	
		<u>January 8, 2001</u>	<u>2000</u>	<u>1999</u>
DISBURSEMENTS PER EXHIBIT A	\$	1,372,992	3,215,393	2,062,066
Employee fringe benefits		(56,944)	(85,726)	(82,439)
Lapse period expenditures:				
2000		(243,482)	243,482	
1999			(415,134)	415,134
1998				(77,835)
Accounts payable:				
January 8, 2001		408		
June 30, 2000		(4,810)	4,810	
June 30, 1999			(55,394)	55,394
June 30, 1998				(9,163)
Journal voucher adjustment *				1,600
EXPENDITURES PER EXHIBIT C	\$	<u>1,068,164</u>	<u>2,907,431</u>	<u>2,364,757</u>

Technology Trust Fund

		Period July 1, 2000 to January 8, 2001	Year Ended June 30.	
			2000	1999
DISBURSEMENTS PER EXHIBIT A	\$	686,498	1,552,161	1,731,055
Employee fringe benefits		0	(9,237)	(13,921)
Lapse period expenditures:				
2000		(92,431)	92,431	
1999			(563,880)	563,880
1998				(530,124)
Accounts payable:				
June 30, 2000		(16,801)	16,801	
June 30, 1999			(6,108)	6,108
June 30, 1998				(3,458)
Journal voucher adjustment *				290,670
EXPENDITURES PER EXHIBIT C	\$	<u>577,266</u>	<u>1,082,168</u>	<u>2,044,210</u>

Local Records Preservation Fund

		Period July 1, 2000 to January 8, 2001	Year Ended June 30.	
			2000	1999
DISBURSEMENTS PER EXHIBIT A	\$	954,634	1,569,639	1,443,705
Employee fringe benefits		(134,022)	(205,913)	(186,877)
Lapse period expenditures:				
2000		(36,686)	36,686	
1999			(22,705)	22,705
1998				(68,591)
Accounts payable:				
January 8, 2001		379		
June 30, 2000		(19,060)	19,060	
June 30, 1998				(1,963)
Journal voucher adjustment *				(18)
EXPENDITURES PER EXHIBIT C	\$	<u>765,245</u>	<u>1,396,767</u>	<u>1,208,961</u>

Library Networking Fund

		Period July 1, 2000 to January 8, 2001	Year Ended June 30, 2000
DISBURSEMENTS PER EXHIBIT A	\$	16,371	811,536
Lapse period expenditures:			
2000		(15,137)	15,137
EXPENDITURES PER EXHIBIT C	\$	<u>1,234</u>	<u>826,673</u>

Investors Education Fund

		<u>Year Ended June 30.</u>	
		<u>2000</u>	<u>1999</u>
DISBURSEMENTS PER EXHIBIT A	\$	50,000	0
Lapse period expenditures:			
1999		(50,000)	50,000
EXPENDITURES PER EXHIBIT C	\$	<u>0</u>	<u>50,000</u>

State Document Preservation Fund

		<u>Year Ended</u>	
		<u>June 30,</u>	<u>1999</u>
DISBURSEMENTS PER EXHIBIT A	\$	(18,500)	
Journal voucher adjustment *		18,503	
EXPENDITURES PER EXHIBIT C	\$	<u>3</u>	

Wolfner State Library Fund

		<u>Period</u> <u>July 1, 2000</u> <u>to</u> <u>January 8, 2001</u>	<u>Year Ended June 30.</u>	
			<u>2000</u>	<u>1999</u>
DISBURSEMENTS PER EXHIBIT A	\$	1,165	54,301	9,057
Trust Service Charges withheld				
from investment earnings		(1,165)	(4,648)	(3,914)
Lapse period expenditures:				
1999			(33,037)	33,037
1998				(5,143)
EXPENDITURES PER EXHIBIT C	\$	<u>0</u>	<u>16,616</u>	<u>33,037</u>

Institution Gift Trust Fund

		Period	<u>Year Ended June 30.</u>	
		July 1, 2000		
		to		
		January 8, 2001	2000	1999
DISBURSEMENTS PER EXHIBIT A	\$	158,916	287,516	171,457
Employee fringe benefits		(18,969)	(30,152)	(26,232)
Lapse period expenditures:				
2000		(14,179)	14,179	
1999			(36,695)	36,695
1998				(48,160)
Accounts payable:				
June 30, 2000		(4,625)	4,625	
June 30, 1999			(5,116)	5,116
June 30, 1998				(2,195)
Journal voucher adjustment *				<u>12,297</u>
EXPENDITURES PER EXHIBIT C	\$	<u>121,143</u>	<u>234,357</u>	<u>148,978</u>

* In September 1998, journal voucher adjustments were made to move certain fiscal year 1998 expense and equipment expenditures to a more appropriate fund.

4. Uncommitted Appropriations – Fiscal Year 2001

The amounts presented as uncommitted appropriations represent appropriations not yet spent or committed at January 8, 2001.

5. Wolfner State Library Fund Transfer

This operating transfer out of \$400,000 represents funds invested with the Missouri Investment Trust. The Missouri Investment Trust was established by Section 30.953, RSMo 2000, to receive, hold, manage, invest and ultimately reconvey funds transferred to the investment trust pursuant to the terms of a trust agreement. According to the trust agreement between the Office of Secretary of State and the Missouri Investment Trust, the funds transferred along with any interest, income or other earnings will be transferred to the Wolfner State Library Fund from the Missouri Investment Trust in January 2010.

6. Operating Transfers Out

The operating transfer out amounts include the applicable funds' proportional share of fiscal year 1998 refunds paid in fiscal year 2000 and fiscal year 1997 refunds paid in fiscal year 1999 required by Article X, Section 18 of the Missouri Constitution. These refunds were:

Fund	Year Ended June 30,	
	2000	1999
General Revenue Fund-Federal	\$ 0	34
Technology Trust Fund	57,464	105,399
Local Records Preservation Fund	34,101	57,716
Investor Education Fund	643	5,749
State Document Preservation Fund	231	925
Wolfner State Library Fund	700	372
Institution Gift Trust Fund	1,353	2,541

The fiscal year 2001 amounts pertain to operating transfers to the General Revenue Fund-State to be used by the Office of Administration for expenditures necessary for funding the operations of public buildings.

7. Franchise Tax

Pursuant to Sections 147.010 to 147.120, RSMo 2000, the responsibility for franchise tax was transferred to the Department of Revenue from the Office of Secretary of State on January 1, 2000.

8. Wolfner State Library Fund

The Wolfner State Library Fund did not receive funds it may be entitled to. In September 1997, the Circuit Court of Texas County, Missouri approved a final settlement and entered an order of distribution for an estate admitted to probate in June 1996. This order indicated that \$295,313 was to be distributed to the Library for the Blind in Jefferson City, Missouri. However, the personal representative of the estate sent the funds to the Friends of Wolfner Library. In addition, the court “discharged and released” the personal representative in September 1997.

The Friends of Wolfner Library is a not-for-profit organization whose mission is to promote public awareness of the Wolfner Library and to raise funds to improve and enhance the library. One of the main ways that the Friends of Wolfner Library accomplishes its mission is to accept gifts, bequests and memorials to help the Wolfner Library.

In October 2000, the court requested the filing of briefs from the Office of Secretary of State, Office of Attorney General, and Friends of Wolfner Library regarding the jurisdiction of the court to make further orders in the estate. To-date, the court has not issued additional orders. Thus, it is uncertain if the Wolfner Library will receive any funds from this estate.

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Findings

OFFICE OF SECRETARY OF STATE
SUMMARY OF FINDINGS

1. Franchise Tax Delinquencies (pages 31-32)

The Office of Secretary of State has not administratively dissolved corporations for failure to pay franchise taxes for filing dates after January 1, 2000.

2. Fixed Asset Records and Procedures (pages 32-33)

An annual schedule of additions and deletions of fixed assets is not prepared and the fixed asset records are not accurate or complete.

OFFICE OF SECRETARY OF STATE
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

We have audited the special-purpose financial statements of the Office of Secretary of State as of and for the period July 1, 2000 to January 8, 2001, and the years ended June 30, 2000 and 1999, and have issued our report thereon dated January 26, 2001.

The following Management Advisory Report presents our findings arising from our audit of the office's special-purpose financial statements.

1. Franchise Tax Delinquencies

The Office of Secretary of State has not administratively dissolved corporations for failure to pay franchise taxes for filing dates after January 1, 2000. This situation exists because the Office of Secretary of State and the Department of Revenue (DOR) have not established policies and procedures regarding the notification process for corporations which fail or refuse to pay franchise tax. The DOR has not notified the Office of Secretary of State of any delinquencies since assuming responsibility for the collection of franchise taxes. Based on the Office of Secretary of State's past experience with administratively dissolving corporations, it is likely that some corporations have been allowed to remain active with delinquencies. Allowing corporations to remain active with delinquencies provides no incentive for corporations to pay their taxes when due. This increases the likelihood that taxes, interest, and penalties will not be collected, and results in lost revenue to the state.

Pursuant to Sections 147.010 to 147.120, RSMo 2000, the responsibility for franchise tax was transferred to the DOR from the Office of Secretary of State, effective January 1, 2000. However, the Office of Secretary of State is still responsible for administratively dissolving corporations based on notification from the DOR of those corporations that fail or refuse to pay franchise tax (including interest and penalties) after the assessment becomes final.

The Office of Secretary of State and the DOR have not agreed on policies and procedures regarding how notifications will be sent (e.g. electronic transfer of information), or how often notifications will be sent. As a result, the Office of Secretary of State has not received any notifications from the DOR and has not administratively dissolved any corporations that failed or refused to pay franchise tax for filing dates after January 1, 2000.

Without delay, the Office of Secretary of State should work with the DOR to establish policies and procedures regarding the notification process for corporations that fail or refuse to pay franchise tax.

WE RECOMMEND the Office of Secretary of State establish policies and procedures with the DOR regarding the notification process for corporations that fail or refuse to pay franchise tax, and resume administratively dissolving corporations as appropriate.

AUDITEE'S RESPONSE

The Office of Secretary of State provided the following response:

We agree with the recommendation and are working on this issue.

The former Secretary of State provided the following response:

Franchise tax was moved to the DOR in January of 2000 and at that time \$100,000 was also transferred to the DOR from the SOS to enable the DOR to make any necessary changes to the computer application to properly function. A portion of the money was to be spent to provide an automated feed to the SOS identifying corporations which were to be administratively dissolved for failure to pay franchise tax. During discussions prior to the transfer this requirement was fully discussed with the DOR. Several discussions have occurred since the transfer but, as of yet, the automated file has not been made available to the SOS by the DOR.

The Department of Revenue provided the following response:

The Department of Revenue (DOR) will continue to work with the Secretary of State (SOS) to finalize the details of the transfer of franchise tax responsibilities from the SOS to the DOR.

2. Fixed Asset Records and Procedures
--

As discussed in prior audit reports, fixed asset records and procedures are not adequate, and do not provide sufficient information to allow us to audit the fixed asset balances and transactions. Because adequate records and/or procedures have not been in place for several years, assets have not been properly accounted for and safeguarded from theft or misuse. At June 30, 2000, the Office of Secretary of State estimated that the total cost of general fixed assets maintained by the office was approximately \$4 million.

The office prepared an inventory listing as of June 30, 1999. This listing was not accurate and/or complete. We noted the acquisition date and location was not included for many items; the listing included some duplicate tag numbers; and, several vehicles were not recorded on the listing. While physical inventories procedures were performed near the end of fiscal years 1999 and 2000, the inventory listing was not adjusted for some discrepancies noted during these physical inventories. The inventory listing has not been updated for fiscal year 2000 and 2001 purchases and dispositions, and many fiscal year 2000 and 2001 purchases have not been tagged. In addition, reconciliations between equipment purchases and the Financial Management System/Statewide Advantage for Missouri (SAM II) system expenditure reports are not being performed. Without the

routine performance of the various recordkeeping, physical inventory, and reconciliation procedures, problems are less likely to be identified, investigated, and resolved.

To ensure all fixed assets are properly recorded, the office should prepare an annual statement of changes in fixed assets. The Code of State Regulations (CSR) at 15 CSR 40.2031 requires state agencies to prepare an annual statement of changes in fixed assets to summarize transactions occurring during the year. To ensure accuracy, this statement should be reconciled to the detailed fixed asset listing. The CSR also requires agencies to maintain adequate fixed asset records that contain identification number; description of the items including name, make, model and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition; physical location in sufficient detail to readily locate the items; and method and date of disposition. A comprehensive annual physical inventory should be conducted and reconciled to fixed asset records.

WE AGAIN RECOMMEND the Office of Secretary of State establish adequate general fixed asset records and procedures that comply with the CSR requirements and provide adequate controls and accountability.

AUDITEE'S RESPONSE

The Office of Secretary of State provided the following response:

We agree with the recommendation and are working on this issue.

The former Secretary of State provided the following response:

You have correctly identified that during fiscal years 1999 and 2000 the SOS performed physical inventories and these were not updated during fiscal years 2000 and 2001. We concur that the inventories were not updated and would like to note the reason for this. The SOS had been tagging all inventory and the implementation of the Statewide Advantage for Missouri system (SAM II) was to allow for the bar-coding to be automatically input into SAM II. The SOS was repeatedly told that this feature in SAM II was being worked on and was to be available shortly after the SOS implemented SAM II by March 2000. The bar-coding capability was necessary to accurately inventory all items. To date, this feature is still not available and, in fact, a request for proposal, has not yet been provided to vendors.

This report is intended for the information of the management of the Office of Secretary of State and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on Prior Audit Findings

OFFICE OF SECRETARY OF STATE
FOLLOW - UP ON PRIOR AUDIT FINDINGS

In accordance with *Government Auditing Standards*, this section reports the auditor's follow-up on action taken by the Office of Secretary of State on findings in the Management Advisory Report (MAR) of our prior audit report issued for the four years ended June 30, 1998.

The prior recommendations which have not been implemented, but are considered significant, are repeated in the current MAR. Although the remaining unimplemented recommendations are not repeated, the office should consider implementing those recommendations.

1. Computer Consulting

In June 1995, the Office of Secretary of State contracted with a computer consultant to work on information technology upgrades. The contract was renewed three times and expanded to include additional tasks.

- A. For one task, payments were made to the consulting firm based on hours billed rather than products delivered. As a result, in April 1998, only one-half of the required reports were delivered, yet the office had paid 94 percent of the contract amount.
- B. The Office of Secretary of State did not inform the Office of Administration (OA) about task completion problems. Thus, OA granted contract renewals and additional work to the consulting firm.

Recommendation:

The Office of Secretary of State:

- A. Monitor the progress of contractors and make payments that coincide with performance and delivery of the product.
- B. Thoroughly assess progress of the current contract with the consulting firm and consider options to either ensure successful completion of all tasks or exercise any provisions in the contract regarding non-performance on the part of the contractor. In the future, the Office of the Secretary of State needs to closely monitor and properly react to contracted services concerns more timely, and inform the Office of Administration of such concerns.

Status:

- A. Implemented. The Office of Secretary of State now monitors all computer consulting contracts. Payments were made on the work performed to-date and/or payments were made after all work was performed.
- B. Implemented. The computer consulting firm completed all required tasks by March 2000. In addition, the Office of Secretary of State informed OA about concerns with computer consulting contracts.

2. Franchise Tax

- A.1. Corporations were not administratively dissolved, as required by state law.
 - 2. Delinquent notices were not sent on a regular basis to corporations with outstanding franchise tax due. In addition, corporations that paid their tax but owed additional assessments were not sent a delinquent notice.
 - 3. Corporations with taxes due were not always certified to the Attorney General for collection.
 - 4. Because the computer program did not always calculate interest and penalties amounts correctly, interest and penalties amounts were verified through manual calculations. The Franchise Tax Division was making significant revisions to their computer system.
- B. There was not an adequate segregation of duties between employees who received payments and recorded transactions, and those authorized to waive penalties.
- C. Protested franchise taxes were not resolved in a timely manner. As of June 1998, a list of pending protested tax cases included sixty corporations and totaled over \$3 million.
- D. Monies were not transmitted to the Department of Revenue (DOR) on a timely basis. Transmittals made to the DOR from June 1, 1998 through June 4, 1998 totaled approximately \$2.1 million and represented receipts from April 14, 1998 through May 28, 1998.

Recommendation:

The Office of Secretary of State:

- A.1. Administratively dissolve corporations for failure to remit amounts due, in accordance with state law.

2. Issue delinquent tax notices on a regular basis to corporations with outstanding franchise tax balances.
 3. Certify franchise tax delinquencies to the attorney general in accordance with state law.
 4. Continue efforts to revise the franchise tax computer system.
- B. Ensure that employees who receive payments and record transactions are not authorized to waive penalties.
- C. Resolve protested franchise tax cases in a more timely manner.
- D. Ensure that monies are transmitted to the DOR in a timely manner.

Status:

Pursuant to Sections 147.010 to 147.120, RSMo 2000, the responsibility for franchise tax was moved to the DOR in January 2000. As a result of the change in statutory authority/responsibility, most prior recommendations are no longer applicable. See MAR finding number 1 for a related problem.

3. Local Records Grant Program

The Local Records Division had not established guidelines or criteria to provide a basis for approving or disapproving extensions for grant funds. In addition, if an entity was awarded a grant, seventy percent of the grant was immediately paid for grants under \$10,000 and thirty-five percent for grants over \$10,000.

Recommendation:

The Office of Secretary of State establish criteria to be followed in considering which entities are eligible for an extension and reconsider their funding method to maximize revenues to the state.

Status:

Partially implemented. The Office of Secretary of State did not establish written guidelines or criteria for approving or disapproving extensions. However, the office's more recent practice has been that extensions are only approved for extenuating circumstances, such as delays in the microfilming process or a change in an entity's personnel. We noted that all extensions for fiscal year 2000 were for less than a year. In addition, the office did not change its funding method because the office believes that some entities do not have adequate funds available to complete a project and be

reimbursed for their costs later. Although not repeated in the current MAR, our recommendation remains as stated above.

4. Fixed Asset Records and Procedures

Fixed asset records and procedures were not adequate. However, the office was in the process of implementing new procedures and forms and generating a fixed asset list.

Recommendation:

The Office of the Secretary of State continue its efforts to establish adequate general fixed assets records and procedures that comply with the CSR requirements and provide adequate controls and accountability.

Status:

Not implemented. See MAR finding number 2.

5. Accounting Controls and Procedures

- A. The duties of record keeping and custody of receipts were not always adequately segregated.
- B. The various divisions did not periodically reconcile their receipt records to the Statewide Accounting for Missouri (SAM) system.

Recommendation:

- A. Review the internal controls and procedures in the various divisions and ensure the duties of receiving, recording, depositing, and reconciling are adequately segregated. If adequate segregation of duties cannot be achieved, there should be periodic independent supervisory reviews of records and reconciliations.
- B. Perform periodic reconciliations between receipts records and the SAM system, and follow up on any discrepancies.

Status:

Partially implemented. We noted improvement in the area of segregating the duties of record keeping and custody of receipts in several divisions. However, some divisions still need to improve their segregation of duties. In addition, most divisions do not periodically reconcile their receipt records to the SAM II system. The fiscal officer indicated that the fiscal office will begin preparing monthly SAM II revenue reports for the various divisions in order for the divisions to reconcile receipt records to the SAM II

system. Although not repeated in the current MAR, our recommendation remains as stated above.

6. Accumulated Annual Leave Balances

Employees were allowed to accrue month-end annual leave balances in excess of the maximum allowed by state regulations.

Recommendation:

The Office of Secretary of State discontinue the practice of allowing employees to accumulate annual leave balances in excess of the maximum allowed.

Status:

Implemented. However, effective November 1, 2000, state regulations provide that annual leave maximums will be monitored on an annual basis.

STATISTICAL SECTION

History, Organization, and
Statistical Information

OFFICE OF SECRETARY OF STATE HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

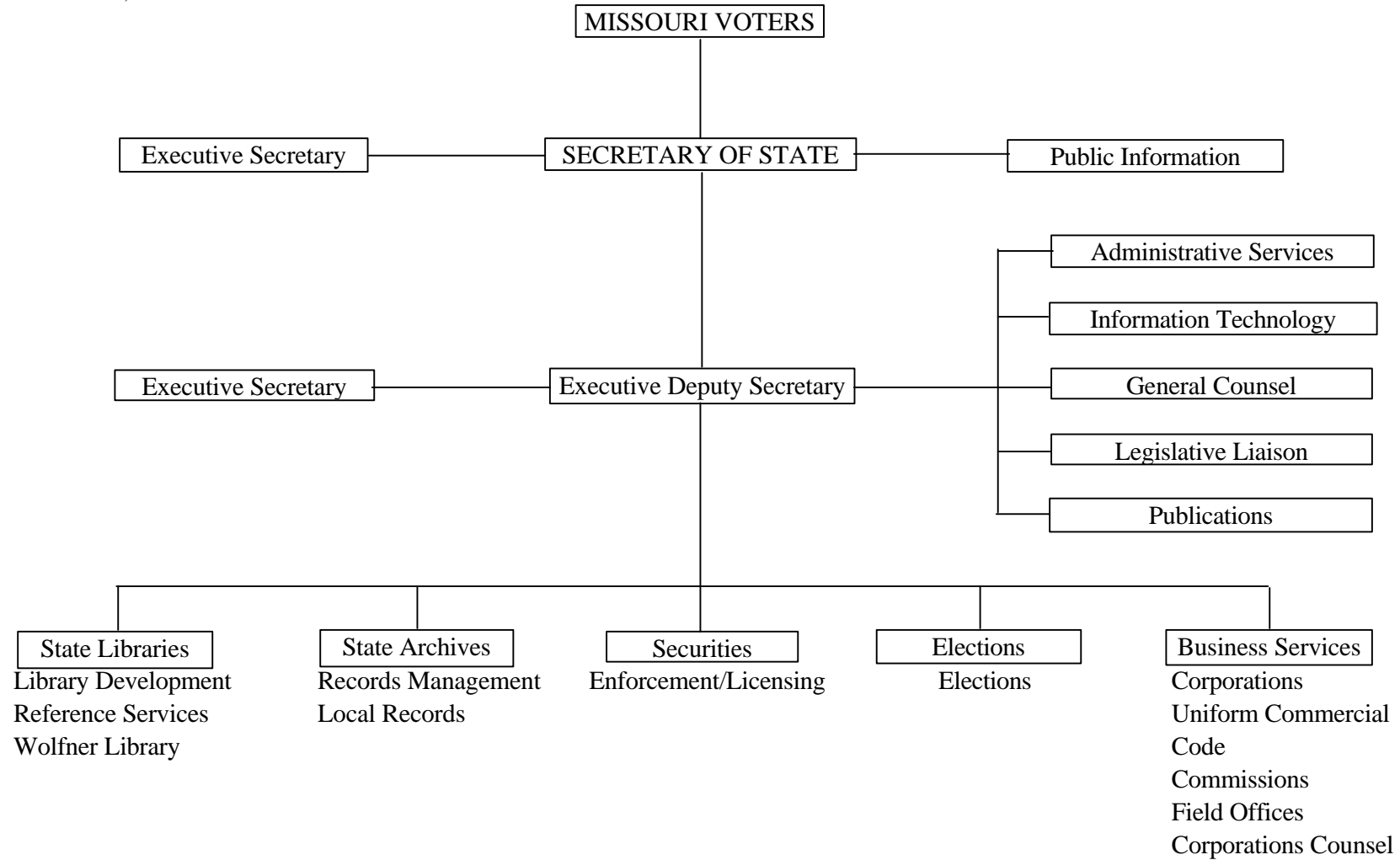
The Office of Secretary of State is an elective office as provided in the Missouri Constitution. Article IV, Section 14, established the duties of the secretary of state: 1) to be custodian of the state seal, 2) to keep a register of the official acts of the governor, 3) to be custodian of records and documents, and 4) to perform such duties in relation to elections and corporations as provided by law.

To accommodate the responsibilities of record keeping, registration, and administration, the Secretary of State's office is currently divided into nine departments - Elections, Securities, Business Services, Record Services, Administrative Rules and Legal Services, Information Technology Services, Executive Services, Administrative Services and Library Services. Some departments are composed of separate divisions which perform specific functions relating to department activities.

The Governor appointed Rebecca McDowell Cook as the thirty-sixth Secretary of State and she was sworn in on December 16, 1994. Secretary of State Cook was elected to a four year term of office in November 1996. Her term expired on January 8, 2001. On that date, Matt Blunt was inaugurated as the thirty-seventh Secretary of State of Missouri.

As of January 8, 2001, the Office of Secretary of State employed approximately 246 full-time and 29 part-time employees. An organization chart follows.

OFFICE OF SECRETARY OF STATE
 ORGANIZATION CHART
 JANUARY 8, 2001



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